



AUSTRALIAN LEADERS FUND LIMITED
A.B.N. 64 106 845 970

AUSTRALIAN LEADERS FUND LIMITED (ALF) – FEBRUARY 2008
INVESTMENT UPDATE & NTA

As at 29 February 2008

NTA before tax	1.1017c*
NTA after tax and before tax on unrealised gains	1.1017c
NTA after tax	1.0924c

*After the payment of \$1,069,884 (1.4 cents per share) in tax.

MONTH IN REVIEW

The fund underperformed the broader market significantly in February falling by more than 8% in a flat market. The main contributors to this underperformance can be partitioned into three main areas.

1. We were too early in adding to the funds position in the major trading banks in February only to see the sector underperform significantly as the month progressed. We felt the Australian banks which had fallen in value along with their international peers had been oversold given their diminutive exposure to the losses in structured debt markets. In fact the Australian banks have done a remarkable job in completely avoiding the losses that have beset the global money centre banks.

While we acknowledged the banks would inevitably see some deterioration in bad debts, the market has quickly factored in a sharp deterioration in single name risks following the collapse of a number of high profile local property and financial institutions. We took a large position in Commonwealth Bank and added to the funds holding in ANZ early February significantly increasing our exposure to financials only to see the sector fall another 10% as the month progressed.

While the banks are capital constrained they should be able to sustain current dividend yields and are now trading on their lowest rating in 10 years on a sustainable earnings basis (normalising for bad debts).

2. The company short sells securities that are expected to underperform in the medium term and re-invests these funds back into the portfolio. This

contributes to performance when portfolio returns exceeds the returns of securities that have been short sold as was the case in 2007. The opposite is also true detracting from performance when the portfolio performs poorly as was the case in February. Borrowed securities that are short sold are a source supplementary funding and leverage. The leverage is not to the broader market but to the stock picking ability of the manager and when the managers stock selection is poor this leverage exaggerates the poor performance.

The situation in February was made worse by the solid performance of companies that had been short sold detracting further from performance. The key reason for this was the style bias between the two portfolios. Simplistically we were overweight financials in our portfolio which did poorly and we were short a number of defensive names which we felt had become overvalued (refer portfolio on page 5 for details of short securities).

On valuation grounds this seemed to be the right way to position the fund but we underestimated how far investors were prepared to push valuation parameters in shifting into so called "defensive" shares. While the market was flat in February the headline numbers belie a sharp rotation which we have been on the wrong side of.

In January and February we started short selling a number these defensive names that we felt had become expensive relative to the shares in the portfolio. Investors have aggressively shifted into these companies at a time of economic uncertainty pushing valuations to extreme levels. This shift from economically sensitive to defensive sectors has moved well beyond what reasonable valuations metrics would support and we have been caught out badly by this shift.

As an example of how far valuations relativities have shifted, investors are now prepared to pay twice as much for each dollar of earnings for companies such as Coca-cola Amatil and Lion Nathan, as there are willing to pay for the likes of Newscorp Ltd and Primary Healthcare, companies that are growing twice as quickly.

3. The other major source of weakness has been in the company's smaller companies portfolio which has historically represented over 20% of the company's assets. Smaller companies have suffered disproportionately for liquidity reasons and a number of the securities held have fallen appreciably. In particular, Credit Corp, ReverseCorp and Primary Healthcare detracted from overall performance.

We have made a number of changes to the investment process to ensure we deliver better result in future.

1. In practice ALF has been unsuccessful in investing in smaller companies and in recognition of this the fund is actively reducing its exposure to this sector.

Where existing investments are trading well below target prices, these investments will be held until full value can be realised. Other investments in this sector have been sold or are in the process of being sold.

2. As a small fund we have tried in the past to take advantage of the funds ability to act nimbly and capitalise on short term mispricing. In pursuing these opportunities we have suffered the consequences in failing to adhere to our medium term view. In future, portfolio turnover will be reduced significantly.
3. We are completing a full review of our risk management procedures to ensure we better manage sector risks and style bias in the portfolio.
4. We will report our short portfolio in future providing better disclosure.

While we are extremely disappointed with the fund's performance in February, everything that possibly could go wrong, happened to go wrong last month. We have implemented a number of changes to our investment process and risk control procedures to ensure we deliver better results in future. The style bias that has cost us dearly in February has reversed somewhat in the current month and we can take comfort from the embedded value in the portfolio. Almost half of the companies in the portfolio are now priced on earnings yields exceeding 10% (single digit p/e's) which we consider highly attractive.

We look forward to reporting better results in the future.

DIVIDEND

The interim dividend declared for the 2008 financial year is 4.0 cents a share fully franked, and is payable on 14 March 2008.

BUYBACK

The board is focused on maximising returns to shareholders and this will from time to time involve active capital management. The board views the introduction of an on market share buy back as being in line with this aim as it will add value to the remaining shares on issue and increase the NTA per share.

A buyback of approximately 10% of the issued capital will commence on 12th March 2008.

As at close of market on 13th March 2008 no shares had been bought back.

PORTFOLIO PERFORMANCE

Gross Performance	1 month	3 month	6 month	Financial YTD 08
Wilson Leaders Ltd	-8.23%	-20.27%	-17.45%	-14.28%
All Ords Accum	0.26%	-13.12%	-7.50%	-7.76%
Relative Performance	-8.49%	-7.15%	-9.95%	-6.52%

PORTFOLIO STRUCTURE

Investment Type	As at 31 January 2008		As at 29 February 2008	
	\$m	%	\$m	%
Listed Securities	125.27	136.1%	102.82	121.50%
Fixed interest and Cash	4.54	4.9%	7.20	8.50%
Gross Assets	129.81	141.0%	110.02	130.00%
Short positions	-37.74	-41.0%	-25.39	-30.00%
Net Assets	92.07	100.00%	84.63	100.00%

The listed securities portfolio is detailed on the following page.

As at 29 February 2008 the equity portfolio gave exposure to:

LONG PORTFOLIO					
Consumer Discretionary				Materials	
Amalgamated Holdings Ltd.	1,054,472	1.03%		Alumina Ltd.	1,612,500 1.57%
Aristocrat Leisure Ltd.	1,456,000	1.42%		BHP Billiton Ltd.	9,103,400 8.85%
Crown Ltd.	1,972,000	1.92%		Gunns Ltd.	1,312,000 1.28%
News Corp.	7,862,715	7.65%		Rio Tinto Ltd.	2,612,727 2.54%
Tatts Group Ltd.	2,150,500	2.09%			14,640,627 14.24%
Village Roadshow Ltd Prf A	2,795,936	2.72%		Telecommunication Services	
West Australian Newspapers Holdings Ltd.	1,140,000	1.11%		Reverse Corp. Ltd.	1,529,100 1.49%
Webjet Ltd.	75,337	0.07%		Telecom Corp. of New Zealand Ltd.	1,670,000 1.62%
	18,506,960	18.01%			3,199,100 3.11%
Consumer Staples				Property	
AWB Ltd.	2,996,250	2.91%		Goodman Group	1,097,500 1.07%
Select Harvests Ltd.	1,669,683	1.62%		Lend Lease Corp. Ltd.	1,977,900 1.92%
	4,665,933	4.53%		Tishman Speyer Office Fund	1,392,440 1.35%
Energy				Westfield Group Australia	3,150,000 3.06%
Caltex Australia Ltd.	1,628,000	1.58%		Stockland Australia	2,115,000 2.06%
Oil Search Ltd.	1,409,100	1.37%			9,732,840 9.46%
Roc Oil Co. Ltd.	2,030,166	1.97%			
	5,067,266	4.92%		Long	102,818,921 100%
Financials					
Australia & New Zealand Banking Group Ltd.	5,167,800	5.03%			
Babcock & Brown Ltd.	814,980	0.79%			
Commonwealth Bank of Australia	5,476,900	5.32%		SHORT PORTFOLIO	
Challenger Financial Services Group Ltd.	660,000	0.64%		Coca-Cola Amatil Ltd.	-3,655,600
Henderson Group PLC	2,181,600	2.12%		Amcor Ltd.	-3,115,200
Macquarie Group Ltd.	2,144,400	2.09%		Orica Ltd.	-2,880,000
National Australia Bank Ltd.	7,731,800	7.52%		Lion Nathan Ltd.	-2,865,000
St. George Bank Ltd.	1,999,200	1.94%		Adelaide Brighton Ltd.	-2,479,583
Westpac Banking Corp.	4,921,429	4.79%		Wesfarmers Ltd.	-1,508,800
	31,098,109	30.24%		OneSteel Ltd.	-1,412,000
Health Care				Foster's Group Ltd.	-1,332,500
Cochlear Ltd.	808,650	0.79%		Telstra Corp. Ltd.	-1,314,900
Primary Health Care Ltd.	2,093,000	2.04%		Sims Group Ltd.	-1,302,000
Pharmaxis Ltd.	721,986	0.70%		Ramsay Health Care Ltd.	-1,157,123
ResMed Inc.	1,457,250	1.42%		Singapore Telecom SGD0.15 (Chess Unit)	-876,000
	5,080,886	4.95%		BlueScope Steel Ltd.	-872,000
Industrials				Healthscope Ltd.	-618,000
Brambles Ltd.	1,044,000	1.02%			-25,388,706
Toll Holdings Ltd.	1,025,000	1.00%			
United Group Ltd.	1,232,000	1.20%			
	3,301,000	3.22%			
Information Technology					
Computershare Ltd.	2,042,400	1.99%			
	2,042,400	1.99%			
Insurance					
QBE Insurance Group Ltd.	3,611,200	3.51%			
Suncorp-Metway Ltd.	973,700	0.95%			
Tower Ltd.	898,900	0.87%			
	5,483,800	5.33%			